

COMMONWEALTH OF KENTUCKY  
BEFORE THE ENERGY REGULATORY COMMISSION

IN THE MATTER OF:

THE CONSIDERATION OF THE COST OF	)	ADMINISTRATIVE
SERVICE STANDARD IN SECTION 111(d)(1)	)	CASE NO. 203
OF THE PUBLIC UTILITY REGULATORY	)	(a) Kentucky Utilities Co.
POLICIES ACT	)	(b) Louisville Gas &
	)	Electric Company
	)	(c) Union Light, Heat
	)	& Power Company
	)	(d) Kentucky Power Company

ORDER

I. INTRODUCTION

The Public Utility Regulatory Policies Act of 1978, better known as PURPA, requires the Energy Regulatory Commission (ERC) to give consideration to and make determinations about the feasibility of adopting certain ratemaking standards identified in Section 111(d). The ERC through this Order is initiating its consideration of the cost of service standard listed in Section 111(d)(1). The ERC believes this standard is the key to adequate consideration of the other standards; and it is, therefore, choosing it to be the first, reserving the others for a later date.

The cost of service standard listed in Section 111(d)(1) of PURPA is stated as follows: "Rates charged by any electric utility for providing electric service to each class of electric consumers shall be designed, to the maximum extent practicable, to reflect the costs of providing electric service to such class". Section 115(a) of PURPA lays out special rules for the methods under consideration in the cost of service standard. These methods, to the maximum extent practicable, shall permit identification of differences in daily and seasonal time of use and differences in customer, demand, and energy components. In addition, such methods shall take into account the extent to which total costs are likely to change if (a) additional capacity is added to meet peak demand relative to base demand and (b) additional kilowatt hours of electric energy are delivered to electric consumers.

The ERC, in determining the appropriateness of implementing the cost of service standard, must consider whether the implementation of this standard would carry out the purposes of PURPA. These purposes, as listed in Section 101, are "to encourage (1) conservation of energy supplied by electric utilities; (2) the optimization of the efficient use of facilities and resources by electric utilities; and (3) equitable rates to consumers." The ERC would like to expand these purposes to include three more: (1) to minimize the impact of economic dislocations due to changing the rate structure; (2) to promote a rate structure which will assist the utility in its continued ability to earn a capital-attracting rate of return as well as to provide revenue stability from year to year; and (3) to determine rates which are simple, understandable, acceptable to the public, feasible to apply, and free of controversy as to their proper interpretation.

These purposes are likely to be served if actual costs are given proper consideration in establishing electric rates. However, determining costs is not a simple process, principally because a substantial portion of an electric utility's costs are common to all of the utility's customers. If these common costs could be equally divided among customers, cost allocation would be a simple process. However, the magnitude of a utility's overall cost is partially dictated by the level of demand of its individual customers; consequently, the allocation of common costs must be based on the load and usage characteristics of individual customers and/or groups of customers.

It follows that the ERC, in its consideration of the cost of service standard, must address the following areas. First, it must examine the extent to which rates for the various customer classes currently are based on costs. Second, it must find out what load research has been done or is planned to be done, to identify the costs of serving the various customer classes. Third, it must inquire as to how historical or embedded costs can be allocated to different classes of customers. Finally, it must consider

the appropriateness or inappropriateness of using marginal costs as a basis for determining rates.

## II. SCHEDULE

Section 102(a) of PURPA defines a covered utility as one with retail sales in excess of 500 million kilowatt-hours during any calendar year beginning after December 31, 1975, and before the immediately preceding calendar year. By this definition there are six utilities covered by PURPA and regulated by this Commission. However, in its last order in Administrative Case 203, this Commission exempted two utilities, Green River Electric Corporation and Henderson-Union R.E.C.C., from further proceedings in this case. Therefore, there are four utilities that will be party to the continued PURPA considerations by this Commission. They are Kentucky Power Company, Kentucky Utilities Company, Louisville Gas and Electric Company, and the Union Light, Heat and Power Company.

The schedule for the consideration of the cost of service standard is as follows:

- |    |                  |   |   |
|----|------------------|---|---|
| 1. | January 26, 1981 | - | 10 a.m. Prehearing conference   |
| 2. | March 16, 1981   | - | Deadline for prefiled testimony by Kentucky Utilities and Louisville Gas and Electric                                       |
| 3. | March 23, 1981   | - | Deadline for prefiled testimony by Union Light, Heat and Power and Kentucky Power   |
| 4. | April 13, 1981   | - | Deadline for prefiled testimony by all other parties to the hearings for Kentucky Utilities and Louisville Gas and Electric |
| 5. | April 20, 1981   | - | Deadline for prefiled testimony by all other parties to the hearings for Union Light, Heat and Power and Kentucky Power     |
| 6. | April 27, 1981   | - | 10 a.m. Hearing<br>Administrative Case 203(a)<br>Kentucky Utilities   |
| 7. | April 29, 1981   | - | 10 a.m. Hearing<br>Administrative Case 203(b)<br>Louisville Gas and Electric  |
| 8. | May 4, 1981      | - | 10 a.m. Hearing<br>Administrative Case 203(c)<br>Union Light, Heat and Power  |

(Conference and hearings will be held at the Commission's offices, 730 Schenkel Lane, Frankfort, Kentucky.)

The ERC wants to point out the fact that there are some unique features in the procedure. First, there will be a pre-hearing conference for all parties to the hearing. This will allow the ERC to determine the extent of participation in the proceedings. The ERC can then make some preliminary judgment about whether enough time has been allocated to permit all views to be expressed and questioned. Also, the ERC will be able to clarify any issues or questions raised by this Order. In addition, it is expected at this time that the utilities will be able to identify someone in their organization as a contact person for any requests for data or information. Also, there could be further explanation of the rules for the discovery of information which follow in Section III of this Order. Finally, since the ERC intends to consider the feasibility of implementing all of the ratemaking standards in Section 111(d) by examining illustrative rates in the PURPA hearings, some agreement must be reached concerning which rate classes are to be considered. This can be accomplished at the prehearing conference. Also note that the ERC intends to use as its test period calendar year 1979 to parallel the data promulgated under Section 133 of PURPA.

Another unique feature of the consideration procedure is the prefilings of all testimony before the hearings. This is an attempt to prevent the hearing process from being drawn out indefinitely. With the prefilings of testimony, direct examination and cross-examination can occur on the same hearing date.

### III. RULES FOR THE DISCOVERY OF INFORMATION

In accordance with Section 121(b) of PURPA, the ERC has developed rules on the discovery of information to be used for the PURPA considerations. The rules are:

1. All requests for information shall go directly to a utility representative designated by the utility at the prehearing conference.

2. The utility must respond to the request for information within ten (10) working days of when the request was made.
3. The utility will provide the response to a request for information or data in written form if requested by staff or intervenors.
4. If a utility believes a request to be unreasonable, it should immediately forward the request and an explanation of why it is believed to be unreasonable to the ERC Secretary. The ERC will determine the reasonableness of the request. If it is determined to be unreasonable, the affected party will be informed immediately. If it is determined to be reasonable, the ERC will require the utility to provide the information to the ERC which in turn will make it available to the party which requested it. This is in accordance with KRS 278.230.

#### IV. ISSUES

The issues that the ERC wants to give consideration to in the cost of service hearing can be grouped into four general categories. These areas and the specific issues are listed below. Although the ERC wants to focus on these particular issues, the consideration process will not necessarily be limited to these issues.

1. CURRENT RATE CLASSES AND RATE STRUCTURE
  - (a) How many customer or rate classes are made available by your company? What are they?
  - (b) Describe the rate schedule for the primary rate classes.
  - (c) To what extent do current or proposed rates reflect the cost of providing electric service to each class of electric consumers?
  - (d) Do you believe the current rates promote the purposes of PURPA? Explain.

2. LOAD RESEARCH

- (a) Describe any load research previously undertaken by your company.
- (b) Does it reflect the load characteristics of all customer classes? If not, which classes does it represent?
- (c) If borrowed load data or best estimates were used in filing the load data for Section 133 of PURPA, discuss how this was done.
- (d) Does it accurately reflect the load characteristics of all customer classes? If not, which classes are represented?
- (e) Describe any planned load research to be undertaken by your company.
- (f) How are rating periods determined for the company's system load?

3. AVERAGE OR EMBEDDED COST

- (a) Describe in detail the methodology used in preparing the embedded cost of service study which was required under Section 133 of PURPA.
- (b) How does this method account for cost differences due to daily and seasonal time of use?
- (c) How does this method classify costs into demand, energy, and customer components?
- (d) How are class revenue requirements determined?
- (e) What are the advantages of using an embedded or average cost of service approach as the basis for determining rates?
- (f) What are the disadvantages of using an embedded or average cost of service approach as the basis for determining rates?
- (g) Do you believe basing rates on embedded costs will accomplish the purposes of PURPA?

4. MARGINAL COST

- (a) Describe in detail the methodology used in preparing the marginal cost of service study which was required under Section 133 of PURPA.
- (b) How does this method determine the additional cost of adding capacity to meet peak demand?
- (c) How does this method determine the additional cost of producing additional kilowatt hours of electric energy delivered to consumers?
- (d) Why was the above methodology employed?
- (e) What are the advantages of using a marginal cost of service approach as the basis for determining rates?
- (f) What are the disadvantages of using a marginal cost of service approach as the basis for determining rates?
- (g) If a marginal cost of service approach were to be adopted by this Commission for determining rates, how would you propose to adjust rates for any over or under collection of revenues that may result?
- (h) Do you believe basing rates on marginal costs will accomplish the purposes of PURPA?

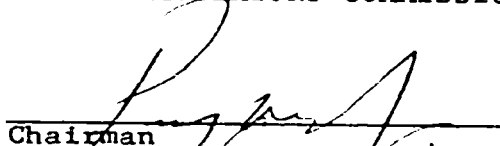
ORDERS

The Commission on the basis of the matters hereinbefore set forth hereby ORDERS that the utilities identified above shall prefile their responses to Section IV of this Order according to the schedule included herein.

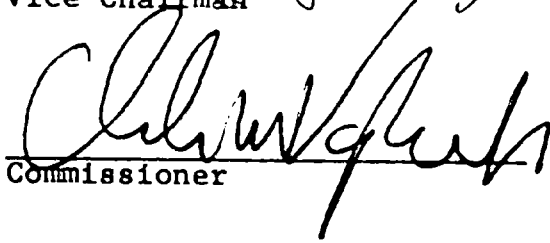
IT IS FURTHER ORDERED that these same utilities shall appear before this Commission for the pre-hearing conference and the appropriate hearing as scheduled above.

Done at Frankfort, Kentucky, this 15th day of December, 1980.

ENERGY REGULATORY COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary